

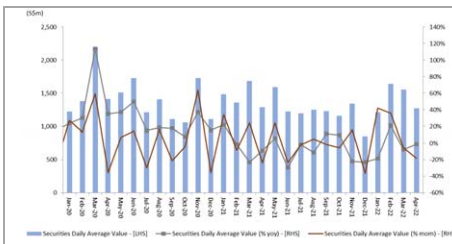
COMPANY UPDATE

Singapore Exchange (SGX SP)

Strong Monthly Performance As Trading Volatility Remains Elevated

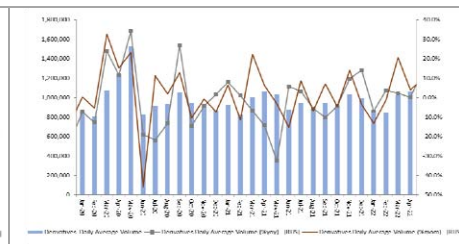
In Apr 22, SGX saw sustained growth in DDAV as trading volumes for both equity-linked and forex derivatives rose, driven by uncertainty caused by the Ukraine-Russia conflict. SDAV continued its downtrend while commodity volumes normalised from recent monthly highs. Upcoming interest rate hikes are expected to suppress SDAV while boosting interest income. In our view, SGX remains fairly valued at current price levels, with limited upside. Maintain HOLD with an unchanged target price of S\$9.33.

SECURITIES DAILY AVERAGE VALUE



Source: Singapore Exchange, UOB Kay Hian

DERIVATIVES DAILY AVERAGE VOLUME



Source: Singapore Exchange, UOB Kay Hian

WHAT'S NEW

- Decline in securities volume.** Despite the benchmark STI Index being the strongest performing developed-market benchmark globally for 4M22, securities daily average volume (SDAV) continued its decline in Apr 22 to S\$1.3b (-1.1% yoy, -18.2% mom). The lower mom performance could be attributed to three fewer trading days in Apr 22 and coming off monthly highs in Mar 22.
- Derivatives outperform.** Derivatives daily average volume (DDAV) surged to 1.1m contracts in Apr 22 (+25.1% yoy, -6.5% mom), driven by uncertainty from the ongoing Ukraine-Russia conflict. On 26 April, DDAV rose to an all-time high of almost 3m contracts. Total equity index futures surged (+23.3% yoy, -17.8% mom) while FTSE China A50 Index volumes skyrocketed (+37.3% yoy, -17.9% mom) as SGX's commanding market share continued to hold up well against HKEX's MSCI China A50 Index futures. Other equity index futures such as FTSE Taiwan Index (+7.4% yoy, -11.5% mom) and FTSE Nifty 50 Index (+14.5% yoy, -9.3% mom) also outperformed.
- Commodities stable while forex outperforms.** Total forex futures volumes grew 27.0% yoy, the highest since Mar 21 as both INR/USD futures (+8.6% yoy, +2.3% mom) and USD/CNH futures (+58.0% yoy, -0.8% mom) surged with the latter increase being attributable to the increasing adoption of CNH as a safe haven currency. Total commodity derivatives volumes softened mom as market volatility normalised from recent monthly highs but was largely stable yoy. Iron ore futures (+3.4% yoy, -49.0% mom) climbed while forward freight agreement softened (-16.9% yoy, -41.6% mom) amid macro uncertainties.

KEY FINANCIALS

Year to 30 Jun (S\$m)	2020	2021	2022F	2023F	2024F
Net turnover	1,052.7	1,055.9	1,067.0	1,149.4	1,222.1
EBITDA	655.7	625.3	609.4	664.8	714.5
Operating profit	565.8	530.7	512.0	570.5	624.4
Net profit (rep./act.)	471.8	445.4	421.3	469.8	514.5
Net profit (adj.)	471.8	446.9	421.3	469.8	514.5
EPS (S\$ cent)	43.9	41.2	38.8	43.3	47.4
PE (x)	22.2	23.6	25.1	22.5	20.5
P/B (x)	8.4	7.5	7.1	6.7	6.1
EV/EBITDA (x)	15.2	15.9	16.3	15.0	13.9
Dividend yield (%)	3.1	3.3	3.4	3.5	3.6
Net margin (%)	44.8	42.2	39.5	40.9	42.1
Net debt/(cash) to equity (%)	(30.7)	(26.4)	(43.6)	(54.5)	(62.9)
ROE (%)	40.4	33.9	29.7	31.1	31.4
Consensus net profit	-	-	434	486	522
UOBKH/Consensus (x)	-	-	0.97	0.97	0.99

Source: Singapore Exchange, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	S\$9.73
Target Price	S\$9.33
Upside	-4.1%

COMPANY DESCRIPTION

Singapore Exchange Limited owns and operates Singapore's securities and derivatives exchange and their related clearing houses. The company also provides ancillary securities processing and information technology services to participants in the financial sector.

STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	SGX SP
Shares issued (m):	1,088.1
Market cap (S\$m):	10,587.3
Market cap (US\$m):	7,692.0
3-mth avg daily t'over (US\$m):	16.7

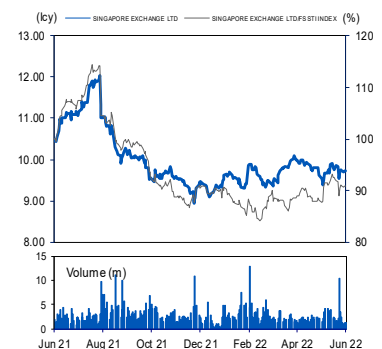
Price Performance (%)

52-week high/low	S\$12.05/S\$8.93			
1mth	3mth	6mth	1yr	YTD
1.1	3.3	2.7	(6.8)	4.6

Major Shareholders

	%
-	-
-	-
-	-
FY22 NAV/Share (S\$)	1.36
FY22 Net Cash/Share (S\$)	0.59

PRICE CHART



Source: Bloomberg

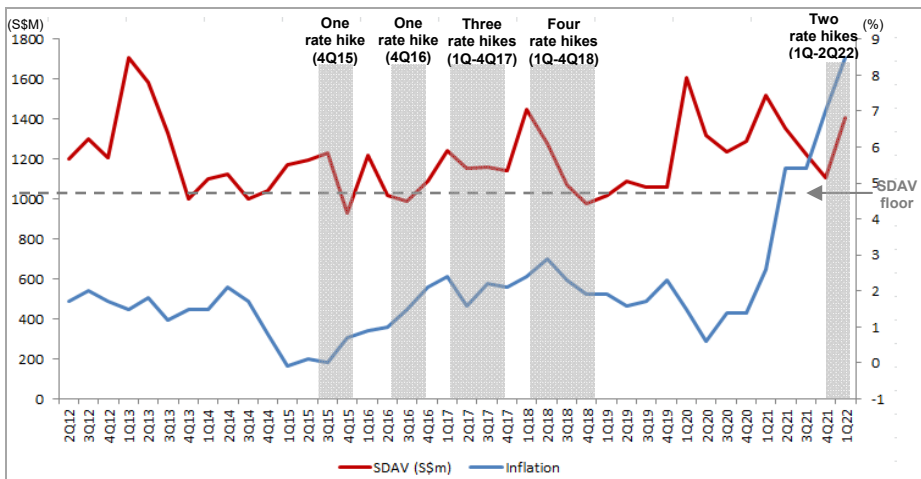
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STOCK IMPACT

• **Impact of high inflation and interest rate hikes.** Facing record-high inflation, the Fed has indicated multiple upcoming interest rate hikes for the upcoming Jun/Jul 22 Fed meetings. Looking back, periods of high inflation and corresponding interest rate hikes have historically suppressed SDAV levels as investors anticipated lower corporate earnings, forming a SDAV floor at around S\$1b post-hikes. As of end-Apr 22, SDAV is currently at S\$1.25b, implying that we expect a 15-20% drop in SDAV levels before seeing any potential rebound in trading activity. This is in line with our expectations as we had already expected SDAV to soften from elevated levels in Feb 22 and Mar 22 (1Q22), driven by the Ukraine-Russia conflict. Thus, as the cash equities segment historically accounts for 35-40% of SGX's annual revenue, we expect revenue from this segment to moderate going forward, and drag down SGX's overall revenue and earnings.

TIMELINE OF SGX'S HISTORICAL SDAV WITH US INFLATION AND FED INTEREST RATE HIKES



Source: Singapore Exchange, UOB Kay Hian, Various News Sources

• **Boost in treasury income.** In May 22, the Fed raised the benchmark interest rate by 50bp to curb record-high inflation. As rates increase, we expect higher treasury income to follow suit and there should be a significant boost some time in 2HFY23/1HFY24, given that there is usually a lag of 6-9 months.

EARNINGS REVISION/RISK

• **No changes** to earnings estimates.

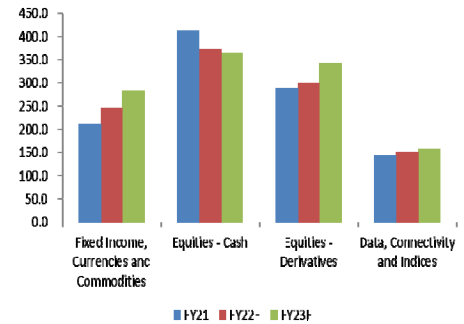
VALUATION/RECOMMENDATION

• **Maintain HOLD with the same target price of S\$9.33**, pegged to the same PE of 23.7x FY22F earnings, +1SD of SGX's historical forward PE. Currently trading (25.1x FY22F PE) at +2SD of its historical mean, we reckon that SGX is fully valued at current price levels and do not see major potential upside. We think significant revenue from new initiatives such as SGX's Forex Electronic Communication Network and Special Purpose Acquisition Company (SPACS) would take time to gestate, and major success from these initiatives could re-rate SGX to trade at levels similar to peers' average (28.6x).

KEY CATALYST

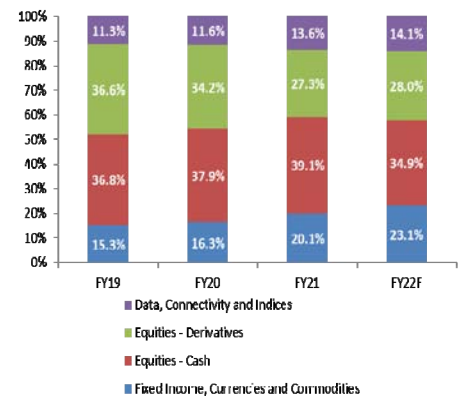
- Secondary listings of foreign listed entities.
- Longer-than-expected period of trading volatility.

FY21-23 ANNUAL SEGMENTAL REVENUE FORECASTS BREAKDOWN (\$M)



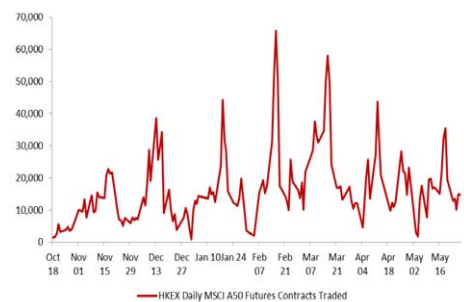
Source: Singapore Exchange, UOB Kay Hian

SGX'S FY19-22 SEGMENTAL ANNUAL REVENUE BREAKDOWN (%)



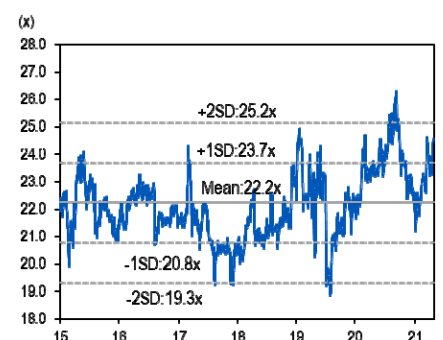
Source: Singapore Exchange, UOB Kay Hian

HKEX'S MSCI CHINA A50 INDEX FUTURES DAILY TRADED VOLUME SINCE LAUNCH



Source: Hong Kong Exchange, UOB Kay Hian *As of 29th Mar 22

SGX'S HISTORICAL FORWARD PE



Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 30 Jun (S\$m)	2021	2022F	2023F	2024F
Net turnover	1,055.9	1,067.0	1,149.4	1,222.1
EBITDA	625.3	609.4	664.8	714.5
Deprec. & amort.	94.5	97.3	94.3	90.1
EBIT	530.7	512.0	570.5	624.4
Total other non-operating income	10.0	0.0	0.0	0.0
Associate contributions	(4.3)	(4.3)	(4.3)	(4.3)
Pre-tax profit	536.5	507.8	566.2	620.1
Tax	(90.7)	(86.3)	(96.3)	(105.4)
Minorities	(0.4)	(0.2)	(0.2)	(0.2)
Net profit	445.4	421.3	469.8	514.5
Net profit (adj.)	446.9	421.3	469.8	514.5

BALANCE SHEET

Year to 30 Jun (S\$m)	2021	2022F	2023F	2024F
Fixed assets	216.2	148.9	84.6	24.5
Other LT assets	956.3	951.8	947.5	943.2
Cash/ST investment	833.4	1,103.0	1,320.2	1,542.1
Other current assets	1,016.7	1,195.8	1,225.7	1,286.3
Total assets	3,022.6	3,399.5	3,578.0	3,796.1
ST debt	0.0	0.0	0.0	0.0
Other current liabilities	1,006.1	1,283.8	1,326.3	1,373.3
LT debt	467.8	467.8	467.8	467.8
Other LT liabilities	158.9	186.6	214.3	242.1
Shareholders' equity	1,384.9	1,456.7	1,564.9	1,708.2
Minority interest	4.9	4.7	4.7	4.7
Total liabilities & equity	3,022.6	3,399.5	3,578.0	3,796.1

CASH FLOW

Year to 30 Jun (S\$m)	2021	2022F	2023F	2024F
Operating	553.0	649.3	608.9	623.3
Pre-tax profit	540.8	512.0	570.5	624.4
Tax	(109.4)	(86.3)	(96.3)	(105.4)
Deprec. & amort.	94.5	97.3	94.3	90.1
Working capital changes	27.1	98.6	12.6	(13.6)
Non-cash items	(0.0)	27.7	27.8	27.8
Investing	(198.0)	(30.0)	(30.0)	(30.0)
Capex (growth)	(173.2)	0.0	0.0	0.0
Capex (maintenance)	(45.3)	(30.0)	(30.0)	(30.0)
Investments	(43.0)	0.0	0.0	0.0
Proceeds from sale of assets	52.3	0.0	0.0	0.0
Others	11.2	0.0	0.0	0.0
Financing	(209.9)	(349.7)	(361.7)	(371.5)
Dividend payments	(342.4)	(349.7)	(361.7)	(371.5)
Proceeds from borrowings	495.2	0.0	0.0	0.0
Loan repayment	(731.0)	0.0	0.0	0.0
Others/interest paid	368.3	0.0	0.0	0.0
Net cash inflow (outflow)	145.1	269.6	217.2	221.9
Beginning cash & cash equivalent	686.4	833.4	1,103.0	1,320.2
Changes due to forex impact	1.9	0.0	0.0	0.0
Ending cash & cash equivalent	833.4	1,103.0	1,320.2	1,542.1

KEY METRICS

Year to 30 Jun (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	59.2	57.1	57.8	58.5
Pre-tax margin	50.8	47.6	49.3	50.7
Net margin	42.2	39.5	40.9	42.1
ROA	15.6	13.1	13.5	14.0
ROE	33.9	29.7	31.1	31.4
Growth				
Turnover	0.3	1.0	7.7	6.3
EBITDA	(4.6)	(2.5)	9.1	7.5
Pre-tax profit	(6.0)	(5.4)	11.5	9.5
Net profit	(5.6)	(5.4)	11.5	9.5
Net profit (adj.)	(5.3)	(5.7)	11.5	9.5
EPS	(6.2)	(5.7)	11.5	9.5
Leverage				
Debt to total capital	25.2	24.2	23.0	21.5
Debt to equity	33.8	32.1	29.9	27.4
Net debt/(cash) to equity	(26.4)	(43.6)	(54.5)	(62.9)

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